

AFFORDABLE HOUSING TRUST FUND UNDERWRITING STANDARDS

These underwriting standards are from the Interagency Stabilization Group's (ISG) Uniform Underwriting Standards. ISG was created in 1993 to encourage further coordination among affordable housing funders in Minnesota. Member agencies include MHFA, the Family Housing Fund, the Greater Minnesota Housing Fund, Hennepin County, Ramsey County, the City of St. Paul and the City of Minneapolis.

1. **Underwriting Period:** Underwriting projection period (to be shown on the cash flow): 20 years from stabilized occupancy.
2. **DCR:** Debt service coverage: 1.05 to 1.25
3. **Vacancy Rate:** Expected to range from 5% to 10% based on current market conditions.
4. **Income and expense trend factor:**
 - a) Income trend factor: 2% to 4%
 - b) Expense trend factor: 1.5 - 2% higher than income trend factor.
5. **Operating Expenses** (including utilities and property insurance, but not real estate taxes): \$450-\$550 per unit per month. If an existing property, the determination of the actual amount will depend on an analysis of the actual operating expenses for the property for the previous three years of operation.
6. **Asset Management Fee:** Up to \$25 per unit per month, minimum of \$5,000 annually. This fee should be the last operating expense paid after debt service.
7. **Property Management Fee:** Up to \$60 per unit per month based on size of development.
8. **Replacement Reserves:** Initial deposit - A replacement reserves analysis will include an inventory of the existing components in the development, their costs, effective ages, and effective useful lives. Ongoing deposits - \$200 - \$250 per unit per year.
9. **Developer Fee:** Defined in the Part I, Section VIII of the RFP.
10. **Maximum rents:** In order to create a sufficient window of tenant eligibility, the project rents should fall below the maximum rent allowed for the targeted income level.
11. **Support Services, if applicable:** Depending on the population being served, the appropriate level of support services should be an ongoing operating expense. County/DHS/HUD/Other funding for support services should be identified by the developer.
12. **Capacity of Property Manager and Quality of Property Management Plan:** Sufficient relevant experience and demonstrated, reliable financial and organizational capacity to adequately execute property management responsibilities. Property managers should have a track record with the type of housing being proposed and should be guided by a sufficiently detailed property management plan that contains property and tenant management policies and procedures including security measures to maintain a safe living environment.

- 13. Capacity of Owner:** Sufficient relevant experience and demonstrated, reliable financial and organization capacity to adequately execute its asset management responsibilities. This includes City review of audited and unaudited financial statements.

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